

Summary:

Lewiston, Maine; General Obligation

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Table Of Contents

Rationale

Outlook

Related Criteria And Research

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Credit Profile		
US\$9.707 mil GO pub imp & rfdg bnds dtd 03/01/2012 due 01/15/2032		
Long Term Rating	AA-/Positive	New
Lewiston GO		
Long Term Rating	AA-/Positive	Outlook Revised

Rationale

Standard & Poor's Ratings Services has revised the outlook on its long-term rating on Lewiston, Maine's general obligation (GO) public improvement bonds to positive from stable. At the same time, Standard & Poor's affirmed its 'AA-' long-term rating on the bonds.

We base the outlook revision on our expectation that Lewiston's tax base will stabilize or grow and that projected debt will remain manageable within the outlook period, while the town maintains what we consider a strong fiscal profile.

Standard & Poor's also assigned its 'AA-' long-term rating, with a positive outlook, to Lewiston's GO public improvement and refunding bonds of 2011.

The long-term rating reflects our opinion of the city's:

- Stable local economy and employment base and standing as the region's hub of economic activity;
- Considerable new growth and development that has contributed to strong per capita market valuations;
- Conservative fiscal management, resulting in a history of sound financial operations and very strong financial reserves; and
- Moderate overall debt burden and manageable additional capital needs.

A tempering rating factor is the city's just adequate but below-average household income measures.

The city will use about \$7.5 million of this issue to fund various capital projects. Roughly \$2.1 million has been authorized for the purpose of refunding a portion of the city's 2002 bonds.

Lewiston is in Androscoggin County, about 35 miles north of Portland, and is the state's second-largest city, with an estimated population of 35,585. While historically an industrial center, the city's economy has diversified over the past 20 years into a regional health care, education, and financial employment center with well in excess of 24,000 jobs.

We believe the list of leading employers will likely remain stable, including:

- Central Maine Medical Center (2,333 employees),
- Sisters of Charity Health Care Systems (1,989),
- TD Bank (1,394), and

- Bates College (768).

City unemployment averaged 7.2% in December 2011, virtually in line with state averages, but below national rates. Household income levels, however, are well-below average compared with the state and the nation. The median household effective buying income was 77% of the state's level and 70% of the nation's level in 2010. Similarly, per capita effective buying income was 84% of the state's level and 79% of the nation's level.

The property tax base is 54% residential and 30% commercial and industrial. Driven by new commercial and industrial construction, the city's tax base has exhibited strong growth over the past decade. In 2010, while real estate values decreased slightly, commercial and industrial values appeared to be growing. Lewiston's state equalized value totaled \$2.2 billion, a 2.1% decrease from the previous year. Despite the decrease, we view the per capita market value as still strong at 62,456 per capita. We consider the tax base diverse, with the 10 leading taxpayers accounting for 17% of assessed value (AV). Wal-Mart Stores East L.P., an 850,000-square-foot distribution center, is the city's leading taxpayer, accounting for 5% of AV.

In our opinion, Lewiston's financial position remains strong despite the city managing through a weaker revenue environment compared with years past. In fiscal 2011, the city implemented Governmental Accounting Standards Board (GASB) Statement No. 54, which is intended to make fund balance reporting more consistent and transparent. The city reported a sizable \$2.4 million general fund operating surplus, equivalent to 3% of budget. The town reported an overall total fund balance of \$17.3 million, or roughly 21% of expenditures. The total fund balance was made up of \$5.3 million of assigned funds and \$9.2 million in unassigned fund balance. Overall, the town's available fund balance is equivalent to 18% of general fund operating expenditures--levels we consider to be very strong. The general fund cash and short-term investments were \$14.8 million, providing significant liquidity.

Real estate taxes account for 49% of revenues, and collections remain stable at 97%. Excise taxes account for just 5% of revenues while intergovernmental aid, which remains under pressure, accounts for 41%. For fiscal 2012, the city has not designated any fund balance, and management feels it was able to address the shortfalls in revenue estimates with further reductions in expenditures. Currently, the city is projecting operating results and both revenues and expenditure are within budgeted estimates.

Based on a review of Lewiston's financial management practices, Standard & Poor's considers the city's management practices "good" under its Financial Management Assessment (FMA) methodology, indicating financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them. The city just recently adopted a stronger fund balance policy addressing minimum liquidity and reserve targets. The new fund balance policy sets a minimum unassigned fund balance of 8% of general fund revenues measured on a GAAP basis--levels we consider strong. If the unassigned fund balance drops below the minimum level, the city is required to develop and implement a plan through the budgetary process to bring the balance up to the target level in no more than three years.

In our opinion, the city's overall debt burden is moderate. Following the inclusion of debt obligations from overlapping governmental units and net of self-supporting enterprise debt and estimated state-appropriated school construction grants, the city's overall net debt will measure a moderate \$2,377 per capita, or 3.8% of full market value. Standard & Poor's notes that these figures include the pension obligation bonds outstanding issued in 2001. The general-fund-supported debt service carrying charge remains, in our view, moderate at roughly 12% of total governmental expenditures. Principal debt amortization is above average; however, officials plan to retire 75% of

principal over 10 years and 100% by 2031.

Additional capital needs are manageable, in our view. Following this issue, the city will have roughly \$4.5 million of authorized, but unissued, tax-supported debt remaining; however, roughly \$4 million is tied to the Bates Mill Redevelopment project and the authorization is a standby borrowing authorization that the city does not expect to borrow against.

A long-term credit consideration is the town's pension and other postemployment benefit (OPEB) liability, which we consider to be manageable. The city does not pay for postemployment health benefits. Nonschool retirees pay their own health insurance as members of the city's plan. The city's only exposure comes from higher use of health services by retirees. The liability that is reported represents the implied subsidy. As of Jan. 1, 2011, Lewiston's unfunded actuarial accrued liability was \$6.9 million. For its pensions, the city contributes to the Maine Public Employees Retirement System Consolidated Plan, a cost-sharing multiple-employer public employee retirement system established by the Maine state legislature.

Outlook

The positive outlook reflects Standard & Poor's view that Lewiston will maintain its strong fiscal profile and that the property tax base will either stabilize or see some expansion within the two-year outlook period resulting from renewed commercial investment and a stabilizing housing market. In addition, we expect that in this period the town will maintain moderate debt levels and moderate debt service carrying charges. We could raise the rating to 'AA' if these expectations come to fruition, or we could revise the outlook back to stable and maintain the current the rating if they do not.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

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